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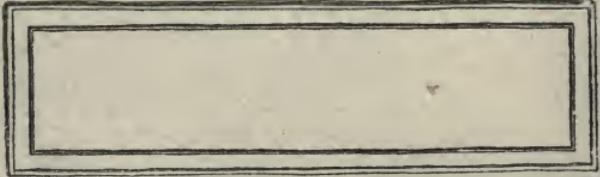
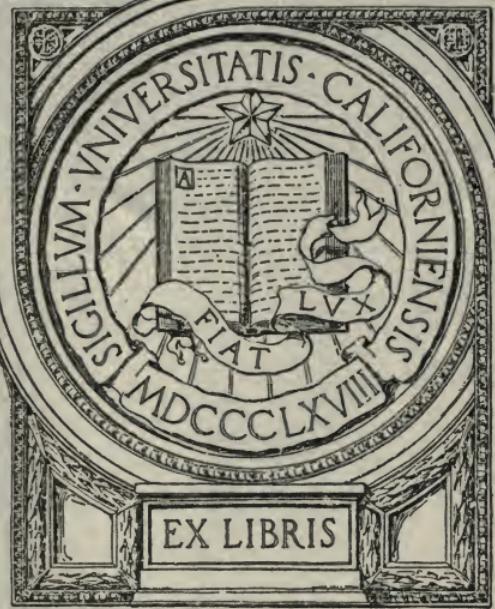
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Transactions of the
Insurance and Actuarial Society
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Session 1883-84.

Competition for President's Prize.

Prize Essay—

The Economical Aspects of Fire and Life
Insurance at the Present Day.

By

James Gemmell,

Scottish Union and National Insurance Company, Glasgow.

March, 1884.

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LIBRARY OF THE SOCIETY.

IT will be one of the first objects of the Society to provide, for the use of Members, a Library of Works on professional subjects, embracing those connected with the theory and practice of Insurance in all its branches, with the theory and practice of Calculation, with Statistics and Finance.

As little can be expected, in this connection, from the funds of the Society, the Committee of Management look to combination on the part of individual Members to secure this most desirable object.

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[ENTERED AT STATIONERS' HALL.]

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ALL INFORMATION

THE ECONOMICAL ASPECTS OF FIRE AND LIFE INSURANCE AT THE PRESENT DAY.

INSURANCE is a contract between two parties, whereby the one called the "Assurer" undertakes for a sum or sums, under certain conditions and restrictions, to "make sure" the other, known as the "Assured," against stipulated events, either certain or contingent.

The application of Insurance is capable of great extension, and already the term implies protection from a numerous variety of risks, the principal of which are Fire, Life, Marine, Accident, Plate Glass, Steam Boiler, and Employers' Liability Insurances.

The fundamental principles of Insurance are based on the doctrine of probabilities. In Insurance against loss by Fire it is calculated that certain losses will be incurred in an extended area of property in a given time, and in Life Assurance that of a number of persons assured a certain proportion of deaths will probably occur in a limited period. Students of the history of Insurance find no direct evidence of its practice by the ancients. There is no mention of any system of Insurance in the Roman laws so far as they have been preserved. In the Code of the Twelve Tables the crime of arson is dealt with, and it is interesting to note that the punishment for that offence was the severe one of death by fire, afterwards modified to "*Aqua et Ignis Interdictio*," equal to the forfeiture of the rights of citizenship.

The history of Fire Insurance in Britain does not carry us further back than the end of the seventeenth century, and the events which occurred immediately prior to the formation of a regulated system seem to have had an important bearing upon the inception of Fire Insurance.

The year 1665 is memorable by the terrible plague which robbed London of 100,000 of her inhabitants. The following year, 1666, earned from Dryden the title of *Annus Mirabilis* (the "Year of Wonders"), principally by the great fire which occurred in the Metropolis and devoured 400 streets and 13,000 houses. The disaster has been commemorated by the erection of that majestic column familiarly known as the "Monument," which at one period bore an inscription falsely ascribing the origin of the fire to religious fanaticism. The obnoxious inscription was erased in 1831, and Pope's famous couplet,

" Where London Column, pointing to the skies,
Like a tall bully, lifts its head *and lies*,"

is now inapplicable. The fire was not an unalloyed calamity, as it must have burned out the dregs of the plague and demonstrated the necessity of devising means whereby the ruinous effects of such evils might be alleviated.

Several years, however, elapsed before Fire Insurance could be ranked as an institution; but the great advantages of the system being readily understood, its popularity was speedily assured.

Prior to this, sufferers from fire became objects of public charity, and subscriptions in the shape of "King's-briefs" and other benevolent contributions from the communities in which fires occurred were the usual methods of assisting the unfortunate. The practice of Fire Insurance does not appear to have required the special permission of the State at any period, although such might be inferred from the monopolies granted by the Crown under James II. and other rulers. Certificates of Incorporation were freely granted by Parliament, which conferred certain privileges upon the shareholders, such as extent of liability, power to sue, and to invest money in lands and heritages. These Charters have now been superseded by the "Joint Stock Companies Acts," which form a more convenient and less expensive vehicle for the formation of corporate bodies.

Fire Insurance as a means of taxation has from time to time occupied the attention of the State. In the year 1694, during the reign of William and Mary, a stamp duty of 6d. was levied on each £100 insured. The duty afterwards varied, reaching as high as 2s. 4d. in 1711, and 3s. 10d. in 1713. In 1765 the duty was 2s. 6d. for policies issued in London, and 5s. for those issued in the provinces.

In 1782 the attention of Lord North was directed to the large amount of business transacted by Insurance Companies, and he induced Parliament to impose a tax of 1s. 6d. per cent. on the amount of property insured, subsequent exceptions being made in favour of Public Hospitals, Workhouses, Agricultural Produce, Workmen's Tools, etc. From the "Town and Country Almanac" (Edinburgh) for the year 1788 we find the following under the head of Stamp Duties—"Policies of Assurance on any article whatever not exceeding £1000 must be written on a Stamped Sheet of 5s. If £1000 or above, 10s.; and upon houses and goods insured from fire, 1s. 6d. for every £100 also to be paid." The duty was not imposed in Ireland till 1786, and was charged for many years at a lower rate than in England and Scotland. The

tax continued, with variations in the percentage and method of application, up till its withdrawal in 1869, when the charge was 1s. 6d. per cent. An ingenious device for partly evading the duty was carried on for a number of years by insuring property *in cumulo*, charging premiums equal in amount to the aggregate of the several premiums which would have been payable by separate insurances. This plan was defeated by the passing of an Act whereby such insurances were declared illegal, unless what is known as the "Average Clause" was inserted.

Judging from the repeated and persistent representations made to Government on the subject, the impost seems always to have been unpopular, the argument against it being that it formed a hindrance to the development of a useful and benevolent institution. It is generally understood, and it is natural to conclude, that the removal of the tax gave a great impetus to Fire Insurance, but it is on public record that with several Companies no increase of business beyond the natural growth was experienced at periods when the duty was reduced.

Fire Insurance in Britain is usually carried on through the medium of Companies having large subscribed or paid-up Capital and Reserve Funds, which are offered as security for losses up to the sums assured. The primitive ideas on the subject of Fire Insurance included payment of a percentage of losses only, insurance confined to ground rent or buildings, perpetual insurances, and restriction of the area of property covered to London. Premiums were regulated according to the sums insured, that is to say, a policy for £1000 cost more in proportion than one for £500 on same risk. Valued policies do not seem to have been issued at any period.

The Contract, as we are all aware, is entered into by means of a stamped document called a Policy, in which are stated the names of Assurer and Assured, the property covered, the extent and conditions of liability, and the money consideration, called the premium—the latter of which is regulated by the risk, such as construction and position of buildings and nature of occupancy.

Fire Insurance is not generally compulsory on the individual, unless under a legal obligation to insure granted to a second party who may have a claim upon the property. An exception to this is found in the city of Hamburg and several small Continental States, where an Insurance rate is levied, and private houses are insured by the community, but merchants and tradesmen are left

to their own discretion as to insuring their goods. Policyholders in the United Kingdom have always had an important advantage over their Continental neighbours in regard to the Average Clause. This Clause, which is inserted only in "average" or "floating" policies, as distinguished from the ordinary specified policy, bears that the Assurer shall be held liable only to such a share of the loss as the sum assured may have borne to the value of the whole property covered at the time of a fire. In France, Germany, Russia, and other countries, this clause is adopted in all Fire Insurance Contracts. In this country its practice is mostly confined to goods lying in different places, the policy covering the whole in one sum. In ordinary or specified policies the Assured receives indemnity up to the full sum in the policy, and is not held a co-Insurer for the difference over that sum. The arguments in favour of the clause are both weighty and numerous, and the principal reason against it appears to be that where very large stocks are held, the owners might experience a difficulty in securing full protection, as they would be unable to insure for the total amount. The universal adoption of the Average Clause would result in the transaction of a large amount of additional insurances, but would have the effect of reducing current rates of premium. Some years ago certain French Fire Insurance Offices offered to take risks in this country at half-rates, but stipulated for insertion of the clause. The offer was not accepted.

The rates of premium charged for common risks have not sensibly altered for the long period of a century and a half, but much has been done towards the classification of risks, the effects of which on the rates we shall have occasion to examine in another part of this paper.

Commerce is connected with all spheres of enterprise, and with none more closely than Fire Insurance, which may be termed the Guardian of Commerce. As an exchange value it forms part of wealth. It is a specific item in the regulation of values from the prime cost of production to the price paid by the Consumer. By the Grower of Wool, the Merchant, the Manufacturer, the Warehouseman, and the Retailer, the cost of Insurance is considered in the same way as outlay upon labour and rent. An example of the extended relations of Fire Insurance to some articles of commerce may be found in a piece of woollen rag. The connection of the principal item of its constitution may be traced from its origin as value under live stock down to its present

state. It has always been, and may continue to be, an insurable subject.

The sound economy of insuring against losses by fire is so well understood that its practice is now general, if not universal, and the best argument that can be advanced in its favour is that it has no detractors in principle. Accepted as a necessity to the most important material interests of the community, its development is concurrent with the accumulation of wealth, and with commercial prosperity. It extends to the individual an indemnity for loss which cannot be given by nature. As a security, it gives confidence to the trader in his business relations. Guarded by its practice from the possible ruin not only of himself but of his creditors, the prudent and reflective member of a commercial community recognises the obligation resting upon him to insure, and that in doing so he is only fulfilling one of the most important functions of business integrity; morally a man *may* risk his all against loss by fire, *but no more.*

Fires, in the economical sense of the term, are unproductive consumpts—mere wastes—and losses occasioned by fire are so much wealth irreparably withdrawn from the world. It is a fallacy to suppose that fires do good inasmuch as they provide employment to reinstate what has been burned. The labour would fall to be expended in the production of capital elsewhere, and the wealth of the community would thereby have been increased. If the losses caused by fire in the United Kingdom amount to £5,000,000 annually, that sum is lost to the nation, and the price of bread and all other articles of consumpt is more or less affected thereby.

The practice of Fire Insurance must be credited with supplying the means—directly and indirectly—whereby an immense amount of life and property has been saved, such as rectifying the faulty construction of buildings, separating hazardous from the non-hazardous, and ascertaining the combustible nature of products when brought into contact with each other, or by themselves. Policyholders are encouraged to provide private appliances for extinguishing fires. *Ex gratia* payments are made to persons who assist in the removal of property from danger of fire. Salvage Corps are established and upheld in commercial centres, whose especial duty is the saving of property from fire and its consequences. Until a comparatively recent date, Fire Brigades were maintained by Insurance Offices, the municipal idea of protection

being confined to the suppression of thefts and housebreaking. The authorities restricted the outlay on extinguishing appliances to the lowest possible limit, and an enforcement of the Act passed in the reign of George III. for the compulsory provision of engines does not seem to have been thought of. The result here ensued that persons who insured paid for the extinguishment of fires on uninsured property, and efficiency was seriously restricted by the independent action of numerous small brigades.

In London, in the year 1862, the upkeep of fire engines cost the Offices £25,000, and it was estimated that at that date not more than two-thirds of the whole insurable property in the Metropolis was insured. In 1823 a special agreement was entered into between the Municipal Authorities in Glasgow and the Insurance Companies to enable the latter to have the assistance of the City Engines outside the Royalty, and it is recorded that the charge for attendance of police and engines at a fire in Donaldson's Cotton Store in 1829 cost the insuring offices no less than £425 7s. 3d. The principle that the Civic Authorities are bound to undertake the extinction or suppression of fires as a public duty, reimbursing themselves by taxation on the inhabitants, has now in part been recognised. The expenses of the London Fire Brigade are at present paid partly by Parliamentary grant, partly by the Insurance Companies, and partly by a tax on the inhabitants. In Glasgow, under the "Police Act of 1866," the expenses of the Fire Brigade are met by a municipal tax and a limited charge upon the owners of property in which fires occur, the latter of which is voluntarily liquidated by the Fire Offices in which the properties may happen to be insured.

The restrictions of our local Police Acts in regard to the safe construction of buildings are confined to the limited form of Dean of Guild procedure. No proper protection to life and property from the danger of fire in badly-built tenements is practised, and it is remarkable that the repeated representations made to the Authorities by Insurance Companies relative to this important subject remain unheaded.

We have before stated that the rates for Fire Insurance are regulated by the character of what is called the risk, and it remains to be added that the law of supply and demand also forms an important factor in the government of charges. The marked differences which, however, occur in the loss ratio, and the causes which undoubtedly affect the increase or decrease of fires, form

insurmountable obstacles to an arrival at the correct equivalent required.

In evidence of the great fluctuations in the percentage of losses on premiums received, it is recorded that in Canada during the last decade the rate has been as low as 48 per cent. and as high as 225 per cent. per annum. The variations in this country have not been so great, but sufficient to show the difficulty of striking a mean.

The causes which influence the increase or decrease in the number of fires are numerous, and it is a fact that a large proportion—nearly five-sixths—occur in insured property. The inference here is not pleasant to contemplate when it is remembered that probably not one-half of the insurable property in the United Kingdom is covered by insurance. In 1833 four hundred and fifty-eight fires occurred in London. In 1881 the number was nearly 2000. The percentage of unknown causes of origin has also greatly increased. In 1833 the known causes in London were 88 per cent., unknown 11 per cent. In 1866, known 56 per cent., unknown 43 per cent.

Fires increase when the general trade of the country is depressed, and decrease when trade is good and money plentiful. Certain districts suffer more from fires than others, independent of the fact that the manufacturing interests are the same, and that the water supply and other means for suppressing outbreaks are equally efficient. Some nationalities are found to have a more intimate acquaintance with fires than others.

The arrangements for regulating the amounts payable to assured under claims for indemnity are entrusted to Fire Assessors, who act as Agents for the Companies in the settlement. The functions of an assessor are probably the most important and difficult in the whole range of Insurance practice. An intimate knowledge of the usages of every branch of industry, a clear understanding of Insurance law, and a special insight into the many characteristics of human nature, are only some of the numerous qualifications required for a successful fulfilment of the duties involved.

The settlement of claims is now much simplified by the uniformity of conditions in the contract adopted by the Offices, the improved book-keeping arrangements now practised by the mercantile community, and the general acceptance of the principles of arbitration by all parties.

The relations between Fire Offices and the insuring public in

the settlement of claims for indemnity have all along been happily of an amicable character, but it is interesting to note that sufferers from fire appear to expect more liberal treatment from Fire Offices than they could hope for in the ordinary course of business. The reasons herein appear to be that in adjusting claims it is difficult in a large proportion of cases to arrive at what were the exact values and quantities of property wholly or partially destroyed, and that where there is a doubt the benefit is given to the assured, and that liberality in settling claims is the use and wont principle of assurers. The difficulties encountered by Offices in resisting claims which are in appearance fraudulent are formidable, and the assistance extended to them by the law is, perhaps, not what they have a right to expect. In nearly every State in Europe, in America, and in other parts of the world, enquiries by public authority take place into the cause of every fire, and in some parts Insurance Companies are expressly prohibited from paying claims until a certificate be granted by the Fire Coroner or Marshal that the cause was accidental, or not fraudulent. Something akin to this was in practice in England at the latter end of the eighteenth century, when what was known as the "Churchwarden" clause was usual, the purport of which bore that before obtaining settlement of claims the assured were required to produce a certificate from a minister or churchwarden that they were persons of reputable character.

In 1825, when fires were uncommonly frequent in Glasgow, the Sheriff of Lanarkshire was constrained to intimate that he would investigate the cause of every fire which occurred in his jurisdiction, through the medium of the Procurator-Fiscal. The reasons he advanced in favour of this step were:—Firstly, that where the cause was attributable to accident the parties would stand blameless in the eyes of the community; secondly, if culpable negligence were established the insurers could consider whether the assured ought to recover; and, thirdly, where design was traced it would lead to punishment and detection of crime. Unfortunately, the plan was prohibited by the Lord Advocate, who restricted the investigation to cases where good grounds were supposed to exist that wilful fire-raising had occurred.

It seems beyond question that the great competition which exists and has existed among Fire Offices has had the effect of increasing the volume of fires, and has added to the crime of fire-raising and perjury. Claims which appear fraudulent are too

readily paid by Companies who dread the unpopularity which seems to follow successful or unsuccessful resistance in courts of justice. Claims by persons of influence are, perhaps, more loosely dealt with than those by other classes, not because the morality of the one is higher than the other, but on account of the connection involved. The consequences of all this point conclusively to an encouragement of crime, and a tax upon the honest policyholders in the shape of increased premiums to meet unjust claims.

The financial power wielded by Fire Offices is evidenced by the enormous funds they have succeeded in accumulating. In 1881 published accounts of 50 British Offices showed that they held paid-up capital and reserve funds to the amount of £20,000,000. The annual revenue from premiums and interest alone totalled £10,000,000, the disbursement on account of claims to £6,000,000, to agents for commission £1,325,000, and for expenses of management £1,580,000. These figures are sufficient to prove that Fire Insurance forms an important item in the financial economy of the nation as an accumulator and investor of capital and an employer of labour, and that the confidence of the public in Fire Offices generally is not misplaced.

The facilities given for the formation of Fire Insurance Companies, and the important relations between them and the material interests of the community, demand that a system of supervision should be undertaken by public authority. The soundness of the large majority of our offices does not admit of doubt, but bubble companies are no rarity in insurance history. The failure of a Fire Office involves a loss not only to shareholders, but to the public in the shape of unsettled claims and unexhausted premiums. As the law at present stands, there are no means of judging whether a Fire Company is solvent or insolvent. The publication of accounts is not compulsory, and where such is voluntarily done no guarantee for accuracy or soundness of method is obtained. In all enterprises of a public character frauds more or less audacious are practised, and Fire Insurance has been no exception to the rule. Insurance "Chevaliers d'Industrie" will continue to flourish as long as the law will allow. Legislative restrictions would protect the public on one hand, and on the other aid respectable concerns in the pursuance and development of a legitimate and useful commercial undertaking. We have already said that it is sound economy to insure. Permit us to add the proviso, that it must be insurance with a solvent company.

Experience has enabled underwriters to classify risks in such a way that what are termed non-hazardous properties do not contribute in undue proportion to meet losses under the hazardous classes, and *vice versa*. The tariff enactments on various kinds of risk, such as Warehouses, Flax, Corn, Woollen, Cotton, and Oil Mills, Distilleries, &c., have effected reductions of rates, and have promoted security from fire by a carrying out of improvements in the construction of buildings, and in the methods of manufacture. The public generally have long recognised the truth that fires pay nobody, and the advice of the experienced surveyor on the important subject of prevention is now as readily asked as given.

A monopoly of Fire Insurance Companies in this country is practically impossible, and competition will ever guard the insured against paying exorbitant rates, it being always understood that the capital invested and risked will require an equivalent return, as in every other commercial pursuit.

A study of the economical aspects of Fire Insurance suggests an investigation of the subject from two points—viz., the Insurer and Insured. A glance at the enhanced value of shares in old-established Companies shows that the business of Fire Underwriting has been of a profitable character, and that the reverse is the case with offices of more recent formation. As we have before endeavoured to show, the loss ratio fluctuates—good years are succeeded by bad ones. Chance to a certain extent favours or frowns upon young and old offices alike. The mania for floating Companies experienced about 1824 is unlikely ever to recur. No serious alterations in the relations between the Companies and the insuring public are probable. If rates are inadequate history will repeat itself by the withdrawal of the weaker offices, only to reappear if inflated premiums are charged. Last year, it will be remembered, a statement was circulated in Glasgow to the effect that the cotton-spinning industry was being stamped out in Scotland owing to the action of Fire Offices in raising rates so enormously that the proprietors of mills were unable to compete in the open market, and blame was even attached to the Offices for their action. The reflective portion of the public would, however, conclude that if offices continued to insure such risks at unremunerative premiums, the loss would in the end fall upon other sections of the community, who would be called upon to meet the deficiency by an increased charge on paying risks. On the whole, success or failure, as in every other commercial undertaking, is dependent to a great extent on

sound management, and fair returns of profit on capital may nearly always be hoped for where prudence and economy are exercised in the conduct of business.

From the assured's standpoint the economy of insuring is easily demonstrated when we consider that, leaving interest out of the calculation, it would require 500 years ere the premium, on a risk at the ordinary rate of 4/ per cent., amounted to the sum assured. If 500 buildings were insured for £100 each at an annual premium of 4/ per cent. and a total loss of one was experienced yearly, the Company insuring would have a debit balance each year in respect of working expenses. A very rare exception to the sound economy of insuring might be found in the case of a person or body of persons holding jointly a large amount of property scattered over a wide area and of limited value. The premiums might be more than sufficient to meet the losses, as the assurer's profit and expenses of management would be saved. This system has been followed by Government during the last twelve years in several departments, but no statements are published to show whether a profit or loss has occurred.

The contract of Fire Insurance is optional with both parties, and as it is generally entered in this country for one year only the Assurer has frequent opportunity of demanding an increase of premium against the security should such be considered necessary, and the Assured may decline to pay the equivalent asked if the charge be thought exorbitant. Rate panics have frequently occurred among offices during periods of bad business, such as the Tooley Street, London, and Liverpool warehouse fires. These, however, have been speedily succeeded by moderation. The old tactics of advancing and retiring—reducing rates to force new ventures from the field, and increasing them when that result was attained—are no longer either practicable or desirable. The public are willing to pay rates sufficient to allow moderate profits and shareholders to accept fair returns on their investments.

Within recent years a large number of our most influential Fire Offices have found new fields of enterprise in the neighbouring Continental States, in America, and in the Colonies, and it is understood that they enjoy a large share of popularity in these countries on account of the undoubted security they can offer and the characteristic liberality of their dealings. From a business point of view, it is, perhaps, a matter of no direct concern to the public whether or not foreign business is transacted by British

Offices, as the Companies, being simply traders, are entitled to conduct their business as they see fit, and it will be readily understood that if the business prove unprofitable a speedy withdrawal will take place. Independent of this, however, the assured in this country need have no fear that they will be called on to contribute for losses on foreign transactions by a "hardening" of home rates, as the legal stipulations in most countries require a publication of accounts which show whether business has resulted in a profit or otherwise, and this publicity will act as a deterrent, if such is needed, against Assurants in one country being taxed to meet losses in another.

In discussing the economical aspects of Fire Insurance, there is one point the omission of which would be inexcusable, affecting as it does the entire monetary relations between both parties—viz., the expenses required or charged for the carrying on of the business. The labour entailed in the conduct of Fire Insurance differs materially from that needed for Life Insurance. The premiums are smaller, and consequently more troublesome of collection. The facilities afforded for transferring the interest in and locus of the movable property insured, the numerous changes which take place calling for repeated surveys, the limited period for which the contract is usually entered into, and the uncertainty of its renewal, all tend to the increase of managing and agency expenses.

It is worthy of note, however, that while most of our prosperous Life Companies are striving to reduce the working charges to the lowest possible limit consistent with progress, no such movement is observable with Fire Offices. If in Life Insurance small expenses mean increased popularity to the Companies and better terms to the Assured, the same will apply to Fire Insurance. The cheaper the commodity the more readily it is purchased.

The continuous progress of Fire Insurance is, it may, however, be concluded, in no danger of being arrested by a ruthless waste of the public money. As an Institution it is independent of any section of the public. Born of necessity, quickened into life by the calamity of the nation, cradled in the commercial Metropolis of the world, its growth will continue with the advance of civilization and the material interests of the community.

The history of Life Insurance in this country also dates from the end of the seventeenth century. It is supposed by some that the idea of Insurance on human life was borrowed from the Marine Insurance system, as it appears to have been usual

at that time to underwrite lives after the manner of Marine Insurance.

The development of Life Assurance has not been so regular, or so rapid, as that of Fire Insurance, by reason of the abuses which originated in its practice, the length of time required for the proper working out of a difficult science, and the charge of immorality persistently advanced against it by the clergy and others. For nearly a hundred years from 1681 the transaction of Life Insurance was altogether prohibited in France, and the scandalous events which happened in this country between 1720 and 1774, whereby gambling of the most pernicious description was carried on under the cloak of Life Assurance, must have had the effect of creating doubts in the minds of the well-disposed as to whether the system could be adapted to benefit the community.

The creation by law, in the reign of George III., of what is termed "insurable interest," formed the first step to that progress in Life Insurance which has since continued, and which has proved so beneficial to all classes.

The contract of Life Insurance differs from that of Fire Insurance in the important respect that it is not a contract of indemnity, but a simple undertaking on the part of the Assurer on the due payment of the premium or premiums to pay to the Assured or their representatives a certain sum on the occurrence of a certain or contingent event. The contract is generally entered into for long periods, death alone in the majority of cases ending it. The Assurer is bound to receive the renewal premiums on due presentation, and to accept notices of Assignations and Dispositions of the interest conform to law. In Fire Insurance the nominal Stamp Duty of 1d. is required on each policy. Under the contract in Life Assurance the duty is regulated by the sum assured. —

The law allows that any person has an insurable interest in his or her own life, that a wife has an insurable interest in the life of her husband, and (assumably) *vice versa*, without pecuniary or dependent interest; that a parent cannot insure the life of a child, or *vice versa*, without such an interest. Partners may enter into a joint Assurance, the amount in the policy payable to the survivors or survivor; and creditors, or trustees for creditors, may insure the lives of debtors in security for sums owing.

Life Insurance in this country is at the present time practised by two distinct classes of offices called "proprietary" and "mutual." The term "mixed" is now applied to the former because the profits

arising from the business are divided between the Shareholders and the Assured. In mutual offices the whole profits are divided among the Policyholders. An examination into the relative merits of the two classes is uncalled for here, and it will be sufficient to remark that there are advantages appertaining to both. Formerly, offices existed which were altogether proprietary, and divided no profits or bonuses whatever to any class of Policyholders, but these have become obsolete, although non-profit policies are still issued, and form one of three denominations termed "Profit," "Deferred Profit," and "Non-profit" policies.

The objects to which Life Insurance is applicable are manifold—the principal being for family provision, endowments, collateral security, and survivorships. The husband protects his dependents by insuring his life against the contingency of early death. The person with no dependent exercises thrift, prudence, and forethought by creating a provision for old age. The creditor assures the life of the debtor to guard against the loss he would sustain were the latter to die before liquidation of the debt. Partners insure jointly so that on the death of one of their number the claims of the executors may be satisfied without the need of withdrawing part of the business capital.

Until the passing of the "Married Women's Property Act" in 1870, and the "Married Women's Policies of Assurance (Scotland) Act, 1880," unassigned policies on the lives of bankrupts formed part of the estate assets, and were attachable by creditors, but the provisions of these Acts now render it competent for a solvent person to insure for the benefit of his wife and children, free from liability to creditors.

Provisions similar in effect have long been in force in Canada and various States in the American Continent. The system, however, is opposed by some on the ground that in many instances premiums will be paid and policies upheld under the protection of the Acts from moneys which belong by right to Assured's creditors.

The popularity of Life Assurance is in a great measure attributable to the liberal conditions which are now enjoyed by the Assured, and to the protection given by law to prevent frauds of any kind. "Bonuses" or "profits" are divided among participating Policyholders, and may be applied to reducing future premiums, may be converted into cash, or may be added to the sum assured. If adverse circumstances overtake Policyholders, surrender values are granted to a large percentage of the premiums

actually paid. Paid-up policies are given corresponding to the value. Loans are made on the security of policies, repayable at will of the Assured, or deductible when policies become claims. To the ordinary Policyholder restrictions as to residence in foreign parts are being gradually relaxed. Claims are paid on production of proof, and even suicide with many Companies forms no barrier to the validity of the contract if the policy has been a few months in force, and not even under that restriction in respect of the rights of third parties. The formation of Companies, and the proper conduct of their affairs, are under the strict surveillance of the State. The "Life Assurance Act of 1870" requires a deposit of £20,000 to be made to the Accountant-General of the Court of Chancery before the transaction of business is permitted, and accounts of receipts and disbursements have annually to be deposited with the Board of Trade under heavy penalties for non-compliance. In effect, every facility is extended to the public whereby a proper estimate of the stability of every British office may be formed.

The necessity for legislative restrictions is conceded in view of the enormous funds placed in the hands of Companies at what may be termed long credit. At the present time no less than £435,000,000 of Life Insurance Policies are current. The annual revenue of the offices combined reaches £20,000,000, of which £12,000,000 are received from premiums alone.

Life Assurance is now accepted by the whole civilized world as in absolute conformity with the necessary relations of life, and already there are those in this country who do not hesitate to advocate a compulsory adaptation of its principles as an aid to the reduction of taxation. It is doubtful, however, whether the idea could be carried out, inasmuch as a percentage of non-contributors would be inevitable. The principle of requiring employés to contribute to an Insurance fund is acted upon in many banking and other institutions, and has proved of great value as an aid to the maintenance and education of the families of deceased members.

Government has so far recognised the advantages of Life Assurance as a stimulus to thrift, and the consequent advancement of the general prosperity of the nation, that a scheme is practised by itself whereby any person in a sound state of health between the ages of 16 and 60 may insure for a sum of not less than £20 and not more than £100. This system has not, perhaps, until now met with the success hoped for, but an extension of it on a more

liberal basis is, it is understood, presently occupying the attention of the Department. Another example of the encouragement given by the State to the economical benefits derivable from Life Assurance is the enactment that premiums paid under Life Policies with British Offices are under certain limits deductible from assessments on income.

The development of the science and practice of Life Insurance has resulted in an extension of its usefulness to all classes of society, from the crowned head down to the poorest subject. The nobleman bound down by the law of entail devotes a portion of his life-rent to endow the younger members of his family, in order that they may be able to maintain their social status. Clergymen, physicians, lawyers, and salaried officials, who, by the nature of their calling, cannot hope for the accumulation of wealth with the same rapidity as is possible in commerce, insure against the contingency of decease at a period when life is becoming every day more valuable in a monetary sense. The merchant starting business with the assistance of friends, gives his word and a life policy as the only security he can offer. If death overtake him before repayment, the insurance money liquidates his obligations, and the capital remains in the business, or is withdrawn and invested for behoof of his dependents; or, recognising that business may bring ruin even at the moment he contemplates retiral on a hard-earned competency, he may find his policy the only unreduceable asset in his possession. The workman enjoys the benefits of the industrial offices and the sick allowance of trades' societies. The most lugubrious object of insurance we heard of is that still practised in many villages in Scotland called "Coffin Societies," the sole object of which is to provide a coffin for deceased members by the weekly payment of a small sum. It is related of one member of such a society that he refused to continue his subscription on the ground that he had contributed for many years and had never received any benefit. The practice of Life Insurance teaches that the longevity of assured is greater than of unassured lives. The chief reason for this is no doubt the fact that to be assurable persons must be healthy; but apart from this it will be conceded that those who are indifferent on the subject of the preservation of their dependents or themselves will not by their habits of life conserve the laws of health to the promotion of old age so well as those who are habitually prudent and thrifty, as are the majority of Assurants.

The very act of proposing to insure has been the means of prolonging the lives of thousands. A declinature, postponement, or addition to age on the part of an office is a distinct warning that causes are at work which may shorten life—a something the knowledge of which may lead to its renewal or alleviation. Every Life Insurance official knows from experience that to request a man to insure may mean to ask him to save his own life. The great privileges of Life Insurance are never felt more strongly than by those who cannot to-day enjoy them, but who might have done so even yesterday. The axiom “Never put off till to-morrow what can be done to-day” is specially applicable to Life Insurance. The duty of insuring is not a compulsory but a moral one on the majority of mankind.

Life Insurance is also an attribute to social happiness. A wife must feel that her husband has the best interests of herself and children at heart when he opens a policy on his life for her and their behoof. “Ladies’ objections” are fortunately less seldom met with now than formerly, and intelligent wives are found urging the duty upon procrastinating or selfish husbands.

The financial aspects of Life Assurance relative to the commercial and social economy of the nation are of the first importance. Government returns tell us that over £11,000,000 are annually paid as claims under Life Policies. The major part of this sum will naturally fall to the share of the widow and the fatherless, who, but for the wise forethought of the breadwinner, would have been left in many cases to eke out a miserable widowhood or childhood, swelling the already large sum of £8,000,000 annually incurred to the State through pauperism. Again, this sum of £11,000,000, equal to a daily payment on the part of the offices of over £30,000, falls to be re-invested in the promotion of industrial enterprise of every kind, multiplying capital and producing labour in every country in the world. It has been received in small sums in trust by the Insurance Companies acting as nurseries of the nation’s wealth, invested by them for behoof of policyholders to whom, or the representatives of whom, a continual redistribution is being made. A large percentage of the sums received as premiums would have been spent on what are termed the luxuries of life, and as consumpt of luxuries is non-productive, irretrievable loss to the wealth of the community would have resulted had Life Insurance not existed. Money would have been scarcer, and consequently would have been dearer, the development of commerce

would have been hindered, the cost of living would have been higher, and taxation would have been increased.

As a direct stimulant to thrift, Life Insurance probably acts more powerfully than savings banks. Every premium paid makes the punctual payment of its successor more imperative. The investment is growing in value both by the sums already paid and the decreased "Expectancy" of the life. To allow the policy to lapse, or to surrender it, would result in loss. A new insurance could not be entered into as cheaply, if at all, and the necessity for it might increase. In banking, deposits are usually repayable at call, and it is the general experience of savings banks that numerous small sums are paid in only to be withdrawn and squandered at holiday and festive seasons.

Life Assurance was never intended to be a burden on the Assured, and we have already endeavoured to show that offices have done much to prevent loss by aiding the Assured in times of depression.

In all well-regulated Companies the interests of every class of Policyholder are scrupulously guarded, and held in trust for their behoof. The premiums received are invested so as to produce the highest rate of interest consistent with perfect security. Independent auditors are called on to overhaul every item of investment and expenditure, and the State, as we have seen, publishes the accounts of all registered Companies at regular intervals.

Frauds by Companies and deception on offices are now difficult of accomplishment. The crimes of a Wainwright or a Palmer are hardly capable of repetition in these days of clearly-defined insurable interest. Frauds on the part of Assurants pay the penalty of forfeiture, and the law stands sentinel against crimes by third parties having evil or mercenary designs on the lives of others.

An important duty rests upon offices to resist claims which appear fraudulent, in order that the rights and privileges of the honest Policyholders may be kept intact.

As in Fire Insurance, it is unfortunate for the public that the appearance of offices in the halls of justice is regarded as tantamount to breach of faith towards the insured. The Companies are only performing a duty in defending the interests of every Policyholder on the registers. If an office pay, or has to pay, claims under fraudulent transactions, each Policyholder suffers in a greater or less degree.

Life Insurance as usually practised is not a speculative transaction, and in this respect has an important advantage over trade. There is no certainty in trade: the reverse is the case with Life Insurance. As Professor de Morgan has it, "Certainty is the thing contracted for." Claims under Life Policies are more easily realisable than trade assets, the sums Assured are paid almost as soon as the legal forms of proof can be procured, and deductions and discounts are unknown where no error has occurred on the part of the Assured at the opening of the contract.

Mortality tables and interest and expenditure rates are now so well understood that the provision necessary for every policy is known, and insolvency in the case of Life Offices is little short of culpable. It is no part of our duty here to enter into the cost of Life Insurance, and the methods in use for calculating and disposing of the premiums, and we shall content ourselves by stating that a substantial margin of profit, or, as it is termed, "loading" over actual risk rates, is invariably charged under "Profit" Policies, and on a lesser scale under all other Life Insurances. In the "profit" classes, the "profit," after deducting outlays, is returned to the Assured in the shape of bonuses, the measure of which will be in accordance with the selection of lives, the financing, and the expenditure. Prosperous finance, we are told, is admittedly the test of a successful administration, and this is pre-eminently so in all Insurance Institutions. Heavy expenses in the conduct of business must necessarily result in loss to the Policyholders.

The law does not require that offices shall keep within certain limits of expenditure, although some offices restrict themselves on this point by their Deeds of Constitution. It is, however, a fact that at the present time the rates of expenditure of Life Companies on the premium income range from 4 to 67 per cent. These are no doubt exceptional, the average being about 14 per cent., but enough is here shown to demonstrate the importance of the subject from the Assured's point of view. Legal restrictions are probably unnecessary, as, if such were enforced, the limit would require to considerably exceed the average above quoted, in order to prevent a monopoly, as new offices would find a difficulty in transacting business under it at the outset.

In addition to "Profit" Policies, offices still continue to insure on the non-profit system, under which no bonuses accrue. In whole Life Insurances this class appears to be less used than

formerly, as the insuring public recognise that to a certain extent profit rates are charged under them, for which they receive no equivalent return. Several offices have adopted a deferred system under which the surpluses are reserved for ultimate distribution.

An important stipulation in the contract of Life Assurance is that the Assured, or their representatives, are bound to produce evidence to the Assurer that the age at entrance has been correctly stated. Much difficulty has been experienced by Policyholders and their executors and assignees who have been unable to furnish direct evidence of birth owing to circumstances beyond their control. Thanks, however, to compulsory registration, these difficulties are becoming less, and with this in view it might be worthy of the consideration of offices whether evidence should not be required before completion of the contract. It has to be remembered that policies are a marketable commodity, and that the question of age, when not admitted, may seriously affect the value.

The benefits conferred on the community by the practice of Life Assurance are not confined to the purposes for which insurances are effected. The laws relating to mortality and heredity have been examined, and the results have proved of immense value to the pathological and mathematical sciences. The effects of occupation, of habits, and of climate upon longevity have been critically inspected, and the deductions distributed for the good of the public. Employment in whole or in part is found for a numerous body of officials in every town, village, and hamlet in the country. Insurance periodicals are plentiful, and the advertising department of nearly every newspaper, magazine, or other public print is laid under contribution to inculcate the "peculiar" advantages appertaining to individual offices.

Probably no part of the practice of Fire and Life Insurance has been so revolutionized as the agency section. Formerly, the appointment as agent was difficult to obtain, and the applicant was required to give security for intromissions. Canvassing for business was considered "*infra dig.*," and business flowed spontaneously upon the offices. In Fire Insurance the *privilege* of being insured was recognised by owners of property, and "competitive rating" was unheard of. Now, we have changed all that. Less than 50 years ago, Insurance Agents in Glasgow did not number a score; now they number nearly half as many thousands. Still the transition continues, and will go on until

every man his own agent will be the probable consummation. The economical aspects of this important subject are worthy of examination. Under the old *régime* every agent being a person of position and social influence, formed a guarantee between Assurer and Assured of the *bona fides* of both. The Companies had confidence in their customers, and *vice versa*. Agents adopted the practice of Underwriting for Companies as a profession, and were regarded as authorities on the terms of Insurance contracts and the usages of offices. Insurances of large establishments were wholly confided to their care, and their suggestions and advice were treated with respect by all parties. To-day, owing principally to extreme competition for business, almost any person, independent of social status or capacity, may obtain an agency. The office, instead of being sought after, is thrust upon the likely and the unlikely, and is now held as an adjunct to the ordinary trade or profession of the holder. The rudiments of the law and practice of Insurance in relation to the Assurer, or the Assured, or the Agent, are not understood. No correct conception of the interests at stake is held. Fire proposals are received and kept until the requirements of other business are met, and leisure found to advise the office. Influential Agents, finding the obstacles to the successful prosecution of business insurmountable, relinquish active operations, and Companies are left in many cases to do business through the medium of half-interested strangers, who attach themselves to no particular Company, and place one office in competition with another in rating and commission allowances. In all this the elements of danger to the Companies and the public are painfully apparent. The "moral" hazard is lost sight of, and security, the foundation of the whole fabric, is weakened. The laws of evolution, hastened by the intelligent discussion on and ventilation of these evils will, however, assuredly lead to their removal or alleviation. The progress of Insurance cannot of necessity be hindered by abuses which are more or less attendant on every enterprise.

In conclusion, we would venture to assert that an intimate knowledge of the objects and advantages of Insurance will continue to obtain under the influences of universal education. Its existence will strengthen with age and flourish with the march of civilization. Its power to do good is immeasurable: its practice appeals to the best instincts of humanity.

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